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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART IIIMain Processing  
SectionOMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response..... 12.00

SEC FILE NUMBER

8-51615

## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: J. SCOTT SECURITIES CORP.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

350 INDIANA STREET, SUITE 200

(No. and Street)

GOLDEN

(City)

COLORADO

(State)

80401

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

HANSON &amp; CO CPAs/CONSULTANTS

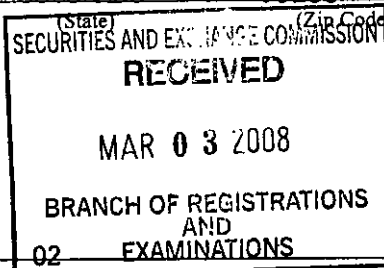
(Name - if individual, state last, first, middle name)

55 MADISON STREET, SUITE 555 DENVER  
(Address)COLORADO 80206  
(State) (Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

MAR 24 2008

THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

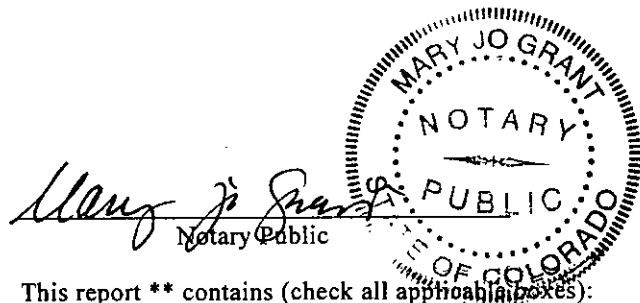
## OATH OR AFFIRMATION

I, JOHN A. SCOTT, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of J. SCOTT SECURITIES CORP, as of DECEMBER 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



[Signature]  
Signature

Owner  
Title

This report \*\* contains (check all appropriate boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

***FINANCIAL STATEMENTS***  
***AND***  
***INDEPENDENT AUDITORS' REPORT***  
***J. SCOTT SECURITIES CORP.***

***December 31, 2007***

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**HANSON & CO.**  
**CPAs/Consultants**

Board of Directors

J. Scott Securities Corp.

**Independent Auditors' Report**

We have audited the accompanying balance sheet of J. Scott Securities Corp. as of December 31, 2007 and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of J. Scott Securities Corp. as of December 31, 2007 and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the accompanying schedule 1 is presented only for supplementary analysis purposes and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hanson & Co. CPAs/Consultants*

Denver, Colorado

February 28, 2008

*J. SCOTT SECURITIES CORP.*

*Balance Sheet*

*December 31, 2007*

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ASSETS

ASSETS

Cash and cash equivalents	\$	7,423
Commissions and fees receivable		91,813
Furniture and equipment, net of accumulated depreciation of \$34,317		1,834

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Total assets	\$	101,070
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LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accounts payable	\$	11,310
Accrued expenses		39,918

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Total liabilities		51,228
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COMMITMENTS AND CONTINGENCIES

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STOCKHOLDER'S EQUITY

Common stock – authorized 20,000 shares no par value; 1,000 shares issued		-
Preferred stock – authorized 100,000 shares; no shares issued		-
Retained earnings		49,842

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Total stockholder's equity		49,842
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Total liabilities and stockholder's equity	\$	101,070
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The accompanying notes are an integral part of these statements.

*J. SCOTT SECURITIES CORP.*

*Statement of Operations*

*Year Ended December 31, 2007*

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Revenue		
Commissions	\$	701,758
Fees		592,245
Other revenue		46,124
<hr/>		
Total revenue		1,340,127
Expenses		
Commissions		372,256
Employee benefits		50,406
Clearance and supervisory costs		190,093
Other operating		17,754
Regulatory fees		15,741
Rent		1,651
Professional services		24,692
Depreciation		854
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Total expenses		673,447
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Income before taxes		666,680
Income tax expense, current		248,672
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Net income	\$	418,008

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The accompanying notes are an integral part of these statements.

**J. SCOTT SECURITIES CORP.**  
**Statements of Changes in Stockholder's Equity**  
**Year Ended December 31, 2007**

	Common Stock			Total	Total
	Shares	Amount		Retained	Stockholder's
				Earnings	Equity
BALANCE, December 31, 2006	1,000	\$ -	\$	64,501	\$ 64,501
Net income	-	-		418,008	418,008
Dividends paid	-	-		(432,667)	(432,667)
BALANCE, December 31, 2007	1,000	\$ -	\$	49,842	\$ 49,842

The accompanying notes are an integral part of these statements.



*J. SCOTT SECURITIES CORP.*  
*Statement of Cash Flows (Page 1 of 2)*  
*Year Ended December 31, 2007*

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CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from commissions and fees	\$ 1,364,931
Cash paid to suppliers and employees	(700,984)
Income tax expense paid to parent company	(248,672)
Interest expense	(684)

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Net cash provided by operating activities	414,591
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture and equipment	(2,134)
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Net cash used for investing activities	(2,134)
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CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable – NASD	(5,949)
Dividends paid	(432,667)

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Net cash used for financing activities	(438,616)
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NET CHANGE IN CASH AND CASH EQUIVALENTS	(26,159)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,582
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,423
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The accompanying notes are an integral part of these statements.

*J. SCOTT SECURITIES CORP.*  
*Statement of Cash Flows (Page 2 of 2)*  
*Year Ended December 31, 2007*

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Reconciliation of net income to net cash provided by operating activities:

Net income	\$ 418,008
Reconciling adjustments:	
Depreciation	854
Changes in operating assets and liabilities	
Accounts receivable	35,404
Accounts payable and accrued liabilities	(29,075)
Deferred revenue	(10,600)
<hr/>	
Total adjustments	(3,417)
<hr/>	
Net cash provided by operating activities	\$ 414,591

The accompanying notes are an integral part of these statements.

**J. SCOTT SECURITIES CORP.**  
**Notes to Financial Statements**

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***Note A - Nature of Operations and Summary of Significant Accounting Policies***

***Nature of Operations***

The Company was incorporated in March 1999 in Colorado and is a registered broker-dealer under the Securities and Exchange Act of 1934 (the Act). The Company is a member of the Financial Industry Regulatory Authority (FINRA), successor to the regulatory function of the National Association of Securities Dealers. Effective August 1, 2005 the Company entered into a commission sharing agreement with NEXT Financial Group, Inc. (NEXT), a non-affiliated FINRA member. As a result of the agreement, the Company transferred its registered representatives and customer accounts to NEXT and began receiving referral fees from NEXT based upon revenue generated by the transferred representatives and customer accounts. The Company, by agreement with NEXT, provides a variety of services to the referred registered representatives including administrative support, payroll and benefits, occupancy, and sales leads. The Company is registered as a branch office of NEXT and operates as an office of supervisory jurisdiction (OSJ) of NEXT, as defined by FINRA.

The Company operates pursuant to Rule 15c3-3(k) (2) (B) of the Act and does not carry customer accounts or clear customer transactions. The Company is exempt from the remaining provisions and requirements of Rule 15c3-3 of the Act.

The Company is a wholly-owned subsidiary of J. Scott Holdings Corp. (Parent) and is part of a group of companies affiliated by common ownership. Accordingly, these affiliations and other related party disclosures must be taken into consideration in reviewing the accompanying financial statements. The operating results of the Company could vary significantly from those that would have been obtained had the Company operated independently.

***Summary of Significant Accounting Policies***

***Use of Estimates***

The preparation of the Company's financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

***Revenue Recognition***

Revenue from referral fees on stock transactions and REITs is recorded on a trade date basis, which is the date that a transaction is executed. The Company recognizes revenue from life insurance and annuity contracts upon the issuance of the underlying life insurance policy or annuity contract. Investment advisory fees are recognized when earned, based on the holding period of the assets in the accounts.

***Cash and Cash Equivalents***

For purposes of the statements of cash flows, the Company considers money market accounts and any highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests.

**J. SCOTT SECURITIES CORP.**  
**Notes to Financial Statements**

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***Note A - Nature of Operations and Summary of Significant Accounting Policies (continued)***

***Commissions and Fees Receivable***

Commissions receivable and related clearing expenses are recorded as trades are executed, on a trade date basis. For insurance or annuity contracts, commissions receivable are recorded upon issuing the underlying policy or contract. Investment advisory fees are recorded quarterly when earned, based on the holding period of the assets in the accounts.

Due to the nature of the Company's business, there is no collateral or other security requirement to support receivables. Receivables are accounted for at face value and interest is not charged. The Company has not provided a reserve for uncollectible accounts, as management believes all receivables are fully collectible.

***Fair Value of Financial Instruments***

The carrying amounts of financial instruments including cash and cash equivalents, commissions and fees receivable, accounts payable, and accrued expenses approximate fair value as of December 31, 2007 because of the relatively short maturity of these instruments.

***Furniture and Equipment***

Furniture and equipment is stated at cost. Depreciation is provided utilizing accelerated methods the Company uses for income tax purposes and over the estimated useful lives for owned assets, ranging from 5 to 7 years.

***Income Taxes***

The Company files a consolidated return with its parent. Income tax expense (benefit) is allocated based on the Company's proportionate share of income or loss included in the consolidated return. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. The Company has no significant differences that result in deferred tax assets and liabilities.

**J. SCOTT SECURITIES CORP.**  
**Notes to Financial Statements**

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***Note B – Branch Office Agreement***

As discussed in Note A, on August 1, 2005, the Company entered into an agreement with NEXT, a non-affiliated FINRA member and wholly-owned subsidiary of NEXT Financial Holdings, Inc. As a result of the agreement, which can be terminated by either party upon 30 days written notice, the Company became a registered Office of Supervisory Jurisdiction (OSJ) of NEXT, as defined by the regulatory authorities. In addition, the Company terminated its registered representatives (referred representatives) who in turn became registered representatives of NEXT. The referred representatives engage in securities sales solely on behalf of NEXT and under the supervision of NEXT for purposes of regulation and supervision of FINRA, the Securities and Exchange Commission (SEC) and state regulatory authorities governing the regulation of securities broker dealers.

The Company records referral fees based on the gross commissions generated by the referred representatives. The difference between the gross commissions generated and the amount received, generally 10% to 15%, is recorded as clearance and supervisory costs. Commissions paid by the Company on behalf of NEXT to the referred representatives are recorded in commission expense and are treated as salary and wages for payroll tax reporting purposes.

Pursuant to the agreement, the Company executed a paymaster and referral agreement with NEXT, becoming an independent contractor providing administrative support, and payroll and benefit services to the referred representatives who continue to conduct business at the offices of the Company. The Company is the employer of record for the referred representatives for purposes of payroll, payroll taxes, and state worker's compensation insurance.

As part of the agreement, the Parent received options to purchase up to 20,000 shares of NEXT Financial Holdings, Inc. representing a possible ownership of 2%. No options have been exercised. The Parent also signed a promissory note on a Line of Credit, as discussed in Note C, and originally borrowed \$100,000 from NEXT for working capital purposes.

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***Note C – Related Party Transactions***

As discussed in Note A, the Company is a wholly-owned subsidiary of J. Scott Holdings Corp. (Parent) and is part of a group of companies affiliated by common ownership. The affiliated companies operate out of common office space and share many occupancy and administrative costs. The companies have signed an expense sharing agreement with the Parent and costs not directly incurred by the subsidiary are allocated between the companies. See Note D.

The Parent entered into an agreement with NEXT for a line of credit that matures in 2008. The balance of the line of credit was \$4,167 at December 31, 2007. The assets of the J. Scott Securities Corp. are pledged as collateral on the borrowings of the Parent.

Dividend distributions are periodically paid to the Parent.

**J. SCOTT SECURITIES CORP.**  
**Notes to Financial Statements**

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***Note D – Allocated Expenses***

The Company renewed an expense sharing agreement with its Parent as of December 31, 2006. Under this agreement, the Company pays 2.5% of administrative and occupancy costs. Monthly rent allocated to the Company, including common area maintenance (CAM) charges, was \$1,651.

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***Note E – Net Capital Requirements***

Pursuant to the net capital provisions of Rule 15c3-1 of the SEC, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio (aggregate indebtedness to net capital) may fluctuate on a daily basis.

According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1. As of December 31, 2007, the net capital is as follows:

<u>Net Capital</u>	<u>Minimum Capital Requirement</u>	<u>Aggregate Indebtedness</u>	<u>Capital Ratio</u>
\$41,382	\$ 5,000	\$51,228	1.24%

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***Note F – Litigation and Complaint***

In the normal course of business, the Company is party to litigation from time to time. The Company maintains insurance to cover certain actions and believes that resolution of such litigation will not have a material adverse effect on the Company.

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***Note G – Concentrations of Credit Risk***

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and commissions and fees receivable. The Company places its temporary cash investments with what management believes are high-credit, quality financial institutions and may occasionally have balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits of \$100,000. Commissions and fees receivable consist of receivables for referral fees subject to the Company's underlying agreement with NEXT. The Company periodically performs credit analysis relating to those with whom it does business.

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***Note H – Subsequent Event***

The Parent company of J. Scott Securities Corp. plans to restructure in 2008. It is anticipated that the restructure will include transfer of the referred customer accounts that generated revenue in Company during the year ended December 31, 2007. If the restructuring is completed as planned, it is anticipated that J. Scott Securities Corp. will have no further activity.

***SUPPLEMENTAL INFORMATION***

**J. SCOTT SECURITIES CORP.**

***Schedule 1 -- Computation of Aggregate Indebtedness and Net Capital  
Pursuant to Rule 15c3-1 of the Securities and Exchange Commission  
As of December 31, 2007***

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NET CAPITAL	
Total stockholder's equity	\$ 49,842
Deductions and/or charges	
Furniture and equipment, net	1,834
Commissions and fees receivable (over 30 days)	6,007
CRD deposit	619
<hr/>	
Net capital	\$ 41,382
<hr/>	
COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS	
Minimum net capital required	\$ 5,000
<hr/>	
Net capital in excess of minimum requirement	\$ 36,382
<hr/>	
Ratio of aggregate indebtedness to net capital	1.24
AGGREGATE INDEBTEDNESS	
Accounts payable and accrued expenses	\$ 51,228
<hr/>	
Total aggregate indebtedness	\$ 51,228
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Reconciliation with company's computation:

The Company will amend Form X-17A-5 for the period beginning 10/01/2007 and ending 12/31/2007. Following the filing of the amended report, there is no difference from the Company's computations included in its Part II of Form X-17A-5, as amended, and the audited computation.



# HANSON & CO.

CPAs / Consultants

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL** **REQUIRED BY SEC RULE 17A-5**

Board of Directors  
J. Scott Securities Corp.

In planning and performing our audit of the financial statements and supplemental schedule of J. Scott Securities Corp. as of and for the year ended December 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparison and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in

conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily disclose all deficiencies in internal control that might be material weaknesses. However, we noted the following deficiencies in internal control that we consider to be a material weakness as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of J. Scott Securities Corp. as of and for the year ended December 31, 2007, and this report does not affect our report dated thereon dated February 28, 2008. The Company did not have a procedure to accrue revenue, expense, and related receivables and payables on registered investment advisory (RIA) fees that are earned during the quarter and receivable as of the end of the quarter. This identified material weakness caused the Company to understate its net income, receivables and payables, and resulted in differences between the Company's computation of aggregate indebtedness and net capital pursuant to Rule 15c3-1 and the audited computation. The Company plans to correct the accounting error and management has informed us that they will implement a procedure to accrue revenue and related expense on the RIA fees at year end. We also identified certain deficiencies that we consider to be significant deficiencies and communicated them in writing to management and those charged with governance on February 28, 2008.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Act of 1934 and related regulations, and the practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007, to meet the SEC's objectives, except as described in the preceding paragraph.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Hanson & Co. CPAs/Consultants*

Denver, Colorado

February 28, 2008